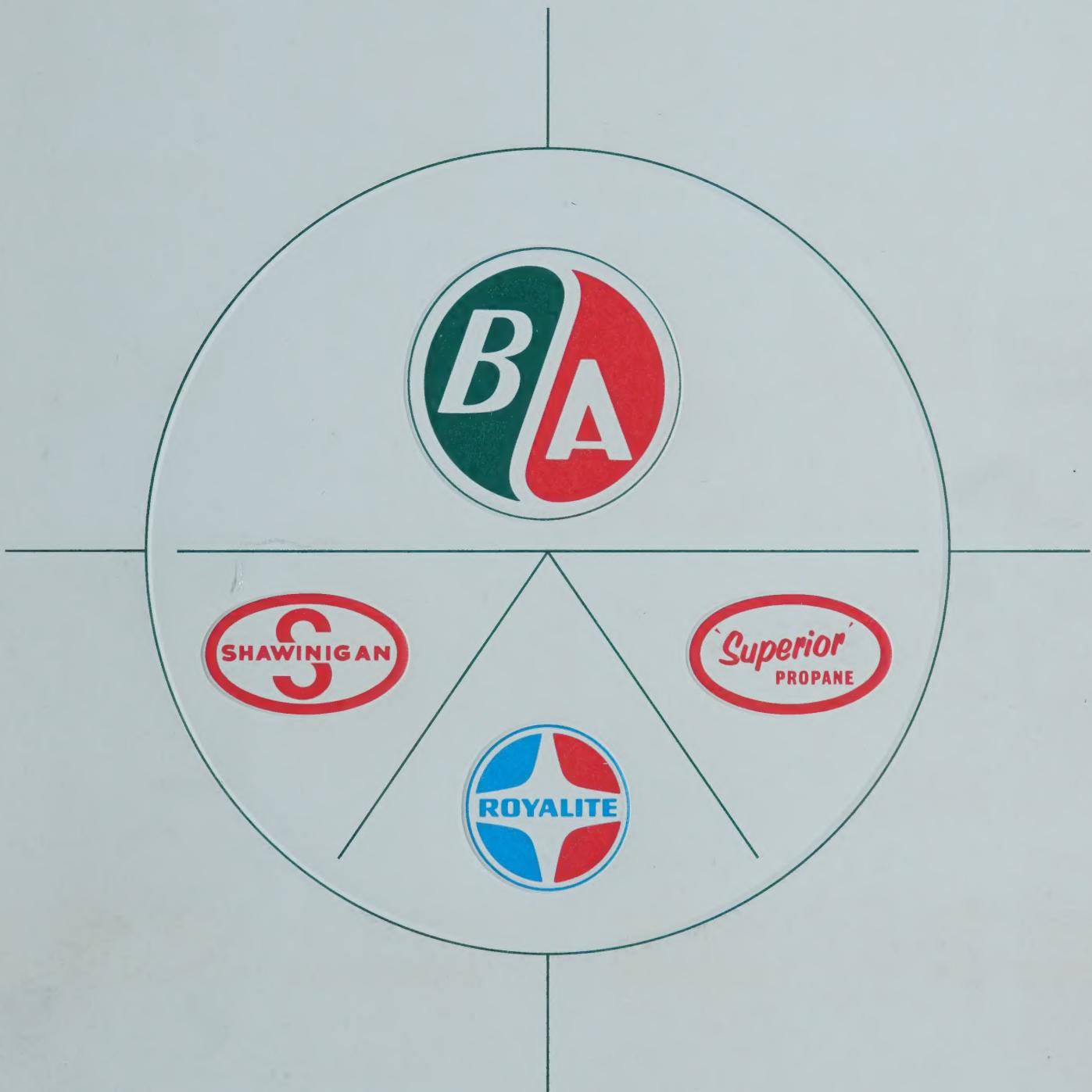


1965 ANNUAL REPORT



The British American Oil Company Limited

Founded in 1906

And Its Affiliated Companies



The British American Oil Company Limited

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Front cover

During 1965, successful operations of principal Canadian affiliates of British American Oil—Shawinigan Chemicals Limited, Royalite Oil Company, Limited, and Superior Propane Limited—reflected the growing importance of B-A's expanding industrial base and its vertical growth within the fields of chemicals, petrochemicals, propane, and helium.

Highlights of Operations

MARCH
30, 1966

Financial

	1965	1964	Per cent increase (decrease)
Gross operating revenue	\$631,617,000	\$595,994,000	6.0
Earnings—including special items	\$ 38,334,000	\$ 40,761,000	(6.0)
—excluding special items	\$ 37,220,000	\$ 36,709,000	1.4
Earnings—per share—including special items	\$1.76	\$1.87	
—excluding special items	\$1.71	\$1.68	
Dividends—total	\$ 21,828,000	\$ 21,819,000	
—rate per common share	\$1.00	\$1.00	
Expenditures—properties, plants and equipment	\$ 52,071,000	\$ 51,396,000	1.3
Depreciation, depletion, amortization	\$ 44,859,000	\$ 46,488,000	(3.5)
Total assets	\$798,566,000	\$757,825,000	5.4
Long term debt	\$ 78,032,000	\$ 83,749,000	(6.8)
Shareholders' equity—total	\$547,574,000	\$530,870,000	3.1
—per share	\$25.09	\$24.33	
	Shares		
Shares issued—common	21,828,643	13,486,245	
—restricted common	—	8,335,648	
—total	21,828,643	21,821,893	

Operating

	Millions of cubic feet		
Net natural gas produced and sold	127,430	119,475	6.7
Thousands of barrels			
Net crude oil and natural gas liquids produced	31,796	31,211	1.9
Crude oil processed	57,145	55,899	2.2
Refined products sold	62,252	59,245	5.1
Thousands of pounds			
Petrochemical sales	931,991	1,012,248	(7.9)

Notes

1964 per share calculations are based on the total common and restricted common shares outstanding at year-end.

Dividends for 1964 include the provision of \$8,335,648 for a dividend on restricted common shares, which was declared on February 17, 1965, and paid on March 1, 1965.

Directors



W. H. Browne, President,
Moore Corporation, Limited,
Toronto, Ontario



F. W. Bruce, President,
Aluminum Company of Canada,
Limited, Montreal, Quebec



D. L. Campbell, Vice-President,
The British American Oil
Company Limited,
Toronto, Ontario



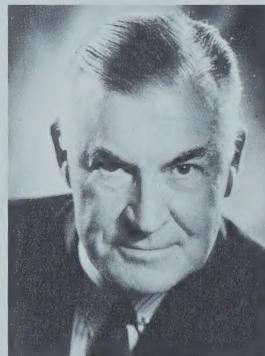
J. R. Gordon, President,
The International Nickel
Company of Canada, Limited,
New York, N.Y.



Charles Hay, President,
The British American Oil
Company Limited,
Toronto, Ontario



R. A. Laidlaw, Honorary Chairman,
National Trust Company Limited,
Toronto, Ontario



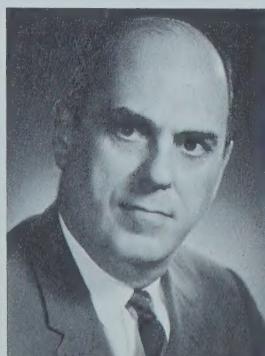
Beverley Matthews, Q.C., Partner,
McCarthy & McCarthy, Barristers,
Toronto, Ontario



Gerard Plourde, President,
United Auto Parts, Inc.,
Montreal, Quebec



V. W. T. Scully, President,
The Steel Company of Canada,
Limited, Hamilton, Ontario



C. D. Shepard, Chairman of the
Board,
The British American Oil
Company Limited,
Toronto, Ontario



Director Emeritus
L. J. Belnap, Honorary Chairman,
Consolidated Paper Corporation
Limited, Montreal, Quebec

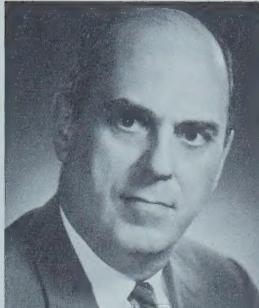


Director Emeritus
C. L. Suhr,
Oil City, Pennsylvania

Officers



Charles Hay, President and Chief Operating Officer. Graduate in civil engineering and LL.D. of University of Saskatchewan. Joined B-A in 1964. Formerly President of Royalite Oil Company, Limited.



C. D. Shepard, Chairman of the Board. Graduate of University of Manitoba Law School, Chief Commissioner, Board of Transport Commissioners for Canada, prior to joining B-A in 1958.



L. P. Blaser, Vice-President responsible for Personnel, Crude and Products Supply, Transportation. Graduate of University of Saskatchewan in chemical engineering. Joined B-A's Calgary refinery operating staff in 1939.



D. L. Campbell, Vice-President responsible for direction of Manufacturing and Administrative Systems. President of British American Research and Development Company. Joined B-A in 1934 following graduation from University of Saskatchewan in chemical engineering.



E. J. Gallagher, Vice-President of Production, with headquarters in Calgary. Graduate in petroleum engineering of University of Pittsburgh. Joined Gulf Oil in 1930. Moved to Canada in 1952 as Manager of Production.



D. S. Lyall, Vice-President responsible for corporate development and finance. Graduate of Dalhousie University and Law School. Joined the Comptroller's Department at Head Office in 1948.



J. W. Morgan, Vice-President responsible for coordination and liaison with affiliated companies. Graduate in chemical engineering of University of Alberta. Joined B-A as chemist at Calgary refinery in 1939.



L. R. Woolsey, Vice-President of Marketing. Graduate in mechanical engineering of University of Saskatchewan. Joined B-A as tankwagon salesman in Saskatchewan in 1949.



G. W. K. Macdonald, Secretary. Graduate of University of Toronto and Osgoode Hall Law School. Joined B-A's Law Department in 1946.



J. M. Turnbull, Treasurer and Comptroller. Admitted to membership in the Institute of Chartered Accountants of Ontario in 1940. Joined B-A as Assistant Comptroller in 1949.



J. C. Phillips, General Counsel. Graduate of University of Toronto and Osgoode Hall Law School. Joined B-A's Law Department in 1956.



The British American Oil Company Limited - its 60th Year

The British American Oil Company Limited, today one of Canada's largest integrated oil companies, was founded at Toronto in 1906 by A. L. Ellsworth as a jobber of kerosene and lubricating oils.

British American built its first refinery on Toronto's waterfront in 1908 so that it could control the quality of products sold under the B-A trademark. By the end of World War I, the Company was firmly entrenched in Ontario and Quebec.

In 1920 B-A extended operations into the Prairie provinces. In 1924 and 1925 two wholly-owned subsidiary companies were organized in the United States—The British-American Oil Producing Company and The Toronto Pipe Line Company—to ensure the Company an independent supply of high quality crude oil.

During the depression of the 1930's, B-A planned boldly for the future. The Montreal East refinery was built and refineries were added at Moose Jaw and Calgary; a fleet of lake tankers was acquired; and marketing operations were expanded into the Maritimes.

During World War II, a modern refinery was rushed to completion at Clarkson, Ontario. In the immediate post-war period, B-A extended marketing activities into British Columbia, and the first tanker of products to Newfoundland introduced B-A quality on the island.

Now British American was truly national.

With the realization of the potential of the oil and gas resources in Western Canada in the late 1940's, a dynamic pattern of development unfolded in the next ten years: a new refinery at Edmonton; the B.A.-Shawinigan petrochemical plant in Montreal East; a new grease plant at Clarkson refinery; *BA Canada*, a new ocean tanker; participation in pipe line transportation; and major installations at Calgary, Moose Jaw, Clarkson and Montreal East refineries to keep pace with refining techniques and market demands.

This, briefly, was the B-A story to the end of 1955.

The beginning of British American's second half-century was marked by the urgent need for more crude oil and natural gas reserves. By acquiring the assets of the Canadian Gulf Oil Company in 1956, in return for the exchange of shares with Gulf Oil Corporation, B-A overnight became the second largest producer of crude oil and the largest holder of natural gas reserves in Canada.

With adequate reserves now assured, B-A again embarked on a broadening expansion program across Canada. In 1957 Clarkson refinery's capacity was tripled, and on the West Coast a ceremonial shovel was dug into a site near Port Moody to signify the beginning of a refinery to supply growing B.C. demands. The sale of large volumes of natural gas to the Trans-Canada pipe line commenced in 1958, and construction of one of Canada's largest gas plants at Rimbey, Alberta, was completed in 1961.

In 1962 B-A acquired a majority interest in Royalite Oil Company, Limited, a fully-integrated oil company operating in Western Canada, and purchased all the common stock of Anglo American Exploration Ltd., a Western Canada petroleum marketing company, and of Superior Propane Limited, Eastern Canada's largest propane distributor. In the same year, the discovery of helium near Swift Current, Saskatchewan, while drilling for oil, led to the formation of Canadian Helium Limited for the extraction and sale of helium. In 1963 B-A acquired a major interest in Shawinigan Chemicals Limited, a well-established industrial chemical organization in the province of Quebec.

Petrochemicals continued to be news as a \$20 million plant of Shawinigan Chemicals at Varennes, Quebec, was built in 1963 to produce ethylene and acetaldehyde. The opening in 1964 of a new Research and Development Centre at Sheridan Park, Ontario, underlined the importance B-A placed on research.

Entering its sixtieth year with over 30,000 shareholders, B-A, together with its affiliates, has 11,100 employees, 9,000 retail and wholesale outlets, gross assets of nearly \$800 million, and gross operating revenues of \$632 million.

With a six-decade record of achievement, B-A faces the future with enthusiasm and confidence.



Report to the Shareholders

The buoyant Canadian economy of the past four years continued through 1965 and contributed to another successful year for the petroleum industry. British American reached new peaks in operating volumes, although a prolonged labor dispute in the latter part of 1965 had an adverse effect on earnings for the year.

Earnings for 1965 before special non-recurring items amounted to \$37.2 million, which slightly exceeded the previous peak of \$36.7 million in 1964. Expressed at a per share rate, earnings on this basis for the current year amounted to \$1.71, compared with \$1.68 in 1964. As was anticipated, total 1965 earnings including non-recurring items, at \$38.3 million, were lower than the \$40.8 million reported for the previous year, because of the net \$4.1 million non-recurring items in 1964 compared with \$1.1 million in 1965. Earnings on this basis amounted to \$1.76 per share in 1965, compared with \$1.87 in 1964. The financial and operating results for the year are recorded and commented upon in detail later in this report.

During September and October, employees of five of the Company's nine refineries and hourly-paid workers of the British Columbia Marketing division, all members of the Oil, Chemical and Atomic Workers' Union, went on strike, while employees of an independent union at a sixth refinery took similar action. This work stoppage, following several months of intensive negotiations with union locals, was the first in B-A's 59-year history. The Company's decision to face this extreme development was carefully considered in the light of current factors and, more importantly, future commitments. The Company was convinced that to accede to the union's wage and other demands would have been uneconomic, since they could not be justified in terms of productivity, and would have seriously hampered the efficient use of its manpower.

Operations at the essential Clarkson and Moose Jaw refineries and in the B.C. Marketing division were carried on by supervisory and other personnel, and throughout the dispute approximately 80 per cent of B-A's refinery capacity continued to operate. Delivery of product was made to customers without interruption. As a result of a threatened province-wide general strike in support of the oil workers, the B.C. government in late November proposed a formula for settlement. This formula, accepted by B-A and the unions, became the basis of settlement at each location, with agreements on specific local issues being worked out and two-year contracts signed.

While attention was focussed on labor conditions at these locations, it should be noted that agreements were negotiated with independent unions at several other processing and marketing units.

A labor dispute such as B-A has experienced causes disruption and expense. It is felt that the settlements reached between B-A and the unions will have long-range benefits to both the Company and the employees.

The current high level of economic activity is reflected in the petroleum industry where new records were established in all major areas of operations during 1965.

Production of crude oil and natural gas liquids in Canada averaged a record 922,000 barrels per day, a gain of eight percent over 1964. Approximately two-thirds of this increase went to domestic markets; the balance was exported.

Modifications to the crude oil import program of the United States announced in December, 1965, had no effect on Canadian export to U.S. markets. Briefly, the U.S. oil policy still provides a quota-free entry of oil delivered overland from Canada and Mexico, but it does require that this total amount be taken into account when calculating the balance that may be imported into the U.S. from other countries.

It would be unrealistic for Canadian producers to expect crude oil markets in the U.S. to grow at a rate as high as that experienced in the early 1960's. Rather, as has been stated by B-A on previous occasions, future expansion will be more in line with normal demand growth in those areas presently being supplied. This increase is estimated to be at a rate of about five per cent per annum.

Natural gas sales in 1965 climbed nine per cent to a record of 2.7 billion cubic feet daily. Most of the increase was in the domestic market, with only a slight gain in exports. Although demand for gas in Canada will continue to grow at a high rate, exports to the U.S. will not show a significant

increase until 1967 when additional volumes are tentatively slated to be delivered to northern California markets. While already authorized by Canada, these exports still require approval of regulatory authorities in the U.S.

Of particular importance to Canada's gas industry is the proposal of the Trans-Canada pipe line to move Alberta's natural gas to Eastern Canada via a route crossing the Great Lakes area of the U.S., and entering southern Ontario near Sarnia. This project, if approved by both countries, should result in substantially increased gas sales, commencing in late 1967 or early 1968. The move will act as a further incentive to the exploration and producing industry, and will open up gas fields in Alberta not presently connected with the gathering system grid.

The domestic and export market for natural gas liquids and sulphur—products associated with natural gas—remained strong during the year. Sales of elemental sulphur, at 1.8 million long tons, resulted in demand exceeding production for the second consecutive year.

A recent significant development was the conclusion of negotiations by British American with a Japanese customer for the export of 7,800 barrels per day of propane to Japan. This export of 28.5 million barrels of propane from Alberta over a ten-year period, commencing in the fall of 1966, will make an important contribution to the industry and Canadian trade.

Industry sales of refined petroleum products in Canada in 1965 were up some seven per cent; refinery operations were at over 92 per cent of rated capacity. The high level of exploration activity broke all records in wells completed and footage drilled.

Now past the mid-point of the 1960's, changes in the economic environment during recent years reconfirm the necessity of constant appraisal of new opportunities and further diversification of existing operations. After a phenomenal growth during the post-war period, the rate of increase in demand for petroleum products has been more in line with the rate of growth of the total economy. To ensure continued expansion through acquisition and diversification, organizational changes at the executive level were made at British American during the year to focus greater attention on the development of new business opportunities, manpower utilization and management coordination.

New directors elected at the Annual Meeting on April 22, 1965, were W. Herman Browne, President and Director of Moore Corporation, Limited, Toronto, and Gerard Plourde, President of United Auto Parts, Inc., Montreal.

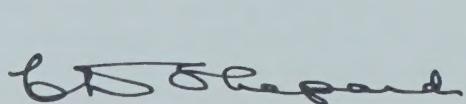
Retiring directors were J. A. Fuller, a B-A director since 1952, and The Hon. Clarence Wallace, a B-A director since 1948.

Since our last Annual Report, D. S. Lyall was appointed a Vice-President. J. M. Turnbull was appointed Treasurer, while retaining his position as Comptroller.

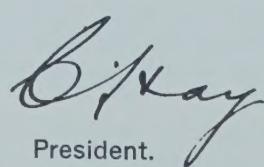
Special thanks are due the supervisory and other personnel, who kept the Clarkson and Moose Jaw refineries on stream during the strike. No less appreciation goes to those who drove trucks, unloaded ships, filled drums, helped in cafeterias, did double duty in offices and branches, and performed a thousand-and-one other jobs.

The directors and officers gratefully acknowledge the splendid support of shareholders, dealers, customers and employees during the year. We feel confident that with the loyalty, skill and industry of all employees, the Company will go forward.

On behalf of the Board,



Chairman of the Board.



President.

Toronto, Ontario, March 25, 1966.

The British American Oil Company Limited and subsidiary companies
Statements of Consolidated Earnings
For the year ended December 31, 1965 (with comparative figures for 1964)

	Earnings	
	1965	1964
Revenues:		
Gross sales and other operating revenues	\$631,617,000	\$595,994,000
Less gasoline and fuel taxes	103,756,000	95,718,000
Net sales and other operating revenues	527,861,000	500,276,000
Dividends and interest income	6,392,000	5,607,000
	<u>534,253,000</u>	<u>505,883,000</u>
Deductions:		
Purchased crude oil, products and merchandise	223,276,000	211,723,000
Operating, selling and administrative expenses	177,032,000	163,935,000
Taxes on income (note 6)	13,002,000	9,558,000
Other taxes	31,558,000	30,589,000
Depreciation, depletion and amortization (note 5)	44,859,000	46,488,000
Interest and amortization of discount and redemption premium on long term debt.	4,352,000	4,564,000
Other interest expense	1,543,000	1,333,000
Income applicable to minority interests in subsidiaries.	1,411,000	984,000
	<u>497,033,000</u>	<u>469,174,000</u>
Earnings for the year	37,220,000	36,709,000
Special items:		
Gain on disposal of certain investments and capital assets . . .	1,114,000	4,977,000
Provision for prior years' vacation expense less related income tax credits (\$723,000)	—	(925,000)
Earnings for the year and special items	<u>\$ 38,334,000</u>	<u>\$ 40,761,000</u>
<hr/>		
	Retained earnings	
Balance beginning of the year	\$281,670,000	\$263,223,000
Earnings for the year and special items.	38,334,000	40,761,000
	<u>320,004,000</u>	<u>303,984,000</u>
Deduct:		
Dividends on common shares.	21,828,000	13,483,000
Provision for dividend on restricted common shares	—	8,336,000
Adjustment under "Pooling of interests" accounting treatment re additional Royalite Oil Company, Limited shares purchased for cash	—	495,000
Balance end of the year	<u>\$298,176,000</u>	<u>\$281,670,000</u>
<hr/>		

Assets		
	1965	1964
Current:		
Cash	\$ 10,396,000	\$ 8,787,000
Short term investments, at cost (approximates market value)	30,858,000	17,693,000
Accounts receivable	108,563,000	99,166,000
Inventories (note 2)—		
Crude oil, products and merchandise	83,394,000	79,104,000
Materials and supplies.	6,962,000	6,865,000
Prepaid expenses	6,074,000	4,656,000
Total current assets	<u>246,247,000</u>	<u>216,271,000</u>
Investments and long term receivables:		
Investments in associated and other companies at cost (note 3).	12,384,000	13,451,000
Deposits and long term receivables	15,938,000	13,916,000
	28,322,000	27,367,000
Properties, plants and equipment (note 4) . .	504,202,000	497,424,000
Deferred charges:		
Discount and redemption premium on long term debt	982,000	1,099,000
Other deferred charges	785,000	812,000
	<u>1,767,000</u>	<u>1,911,000</u>
Excess of cost of investments in subsidiaries over values assigned to their tangible assets, less amortization.	18,028,000	14,852,000
	<u>\$798,566,000</u>	<u>\$757,825,000</u>

mitied and subsidiary companies

alance Sheet

omparative figures for 1964)

Liabilities

Current:	1965	1964
Amounts payable to affiliated companies for crude oil and other purchases	\$ 46,468,000	\$ 25,285,000
Other accounts payable and accrued charges	63,780,000	54,608,000
Income and other taxes payable	25,247,000	21,652,000
Current portion of long term debt	4,112,000	4,815,000
Dividends payable	5,457,000	3,371,000
Provision for dividend on restricted common shares	—	8,336,000
Total current liabilities.	145,064,000	118,067,000
Long term debt (note 7)	78,032,000	83,749,000
Minority interests in subsidiaries:		
Preferred shares.	5,351,000	4,101,000
Common shares	22,545,000	21,038,000
	<u>27,896,000</u>	<u>25,139,000</u>
Total liabilities.	250,992,000	226,955,000

Shareholders' equity

Capital stock (note 8)	\$ 249,398,000	\$ 249,200,000
Retained earnings	298,176,000	281,670,000
Total shareholders' equity.	547,574,000	530,870,000
	<u>\$798,566,000</u>	<u>\$757,825,000</u>

On behalf of the Board:

C. Hay, Director

Beverley Matthews, Director

The British American Oil Company Limited and subsidiary companies

Notes to the Consolidated Financial Statements

December 31, 1965

1. Principles of consolidation

The accounts of all subsidiary companies have been included in the consolidation. U.S. dollar balances have been translated to Canadian dollars as follows: investments in properties, plants and equipment and shares of associated and other companies at rates current at dates of acquisition; all other assets and liabilities at rates current at the end of the year; earnings at rates current throughout the period, except for charges for depreciation, depletion and amortization which are on the basis of the Canadian dollar value of the related assets.

2. Inventories

Inventories of crude oil, products and merchandise are valued generally at the lower of average cost applied on the "first-in, first-out" basis and market value determined on the basis of replacement cost or net realizable value. Materials and supplies are valued at cost or lower depending on the condition of the items.

3. Investments in associated and other companies

	At cost	
	1965	1964
With quoted market value 1965: \$57,100,000; 1964: \$61,500,000	\$ 6,816,000	\$ 6,816,000
Without quoted market value	5,568,000	6,635,000
	\$12,384,000	\$13,451,000

The market values shown are based on closing market prices for the various securities at December 31, 1965 and December 31, 1964. Because of the number of shares involved, the amounts that would be realized if certain of the securities were to be sold might be less than their closing market prices.

4. Properties, plants and equipment

	Gross investment at cost	Accumulated depreciation, depletion and amortization	Net investment 1965	Net investment 1964
Production	\$459,132,000	*\$208,127,000	\$251,005,000	\$252,545,000
Transportation	20,528,000	11,674,000	8,854,000	9,599,000
Refining and petrochemicals	294,177,000	167,475,000	126,702,000	123,151,000
Marketing	182,178,000	72,078,000	110,100,000	105,494,000
Other	11,868,000	4,327,000	7,541,000	6,635,000
	\$967,883,000	\$463,681,000	\$504,202,000	\$497,424,000

*Includes accumulated depletion of \$29,068,000 with respect to the acquisition costs of productive properties.

5. Depreciation, depletion and amortization

Depreciation, depletion and amortization in the statement of consolidated earnings consists of:

	1965	1964
Depreciation of plant and equipment	\$31,304,000	\$30,070,000
Depletion of acquisition costs of productive properties	2,399,000	1,956,000
Amortization of non-producing properties, drilling costs and other intangible assets	11,156,000	14,462,000
	\$44,859,000	\$46,488,000

Policies governing depreciation, depletion and amortization are as follows:

(a) *Exploration and development costs*—

The companies follow the practice of charging to expense, as incurred, the cost of all dry holes and all exploration expenditures except the initial acquisition cost of oil and gas properties. These latter costs together with the costs of successful wells are capitalized and charged against earnings on a unit-of-production or other amortization basis.

(b) Investment in plant and equipment—

Charges are made against earnings for depreciation of investment in plants and equipment, based on engineering reviews of the remaining service lives of the assets, using either the straight-line or the unit-of-production method, whichever is appropriate.

6. Income taxes

(a) Exploration and development expenditures, to the extent that they are allowable deductions for tax purposes, are claimed in the year in which they are incurred or as soon thereafter as possible, regardless of the treatment followed in the accounts.

(b) For Canadian income tax purposes the companies claim the maximum capital cost allowances, including any accelerated allowance, rather than the depreciation charged in the accounts. Such allowances have exceeded the depreciation charged in the accounts resulting in a reduction in income taxes of \$1,500,000 in 1965, (\$2,300,000 in 1964) and approximately \$42,000,000 to date.

7. Long term debt

	Maturity	Amount
The British American Oil Company Limited—		
2½% Serial Debentures due \$1,200,000 per annum	1966	\$ 1,200,000
3½% Debentures, 1954 issue		
—due \$500,000 per annum	1966	500,000
—sinking fund	1974	12,726,000
5½% Debentures Series A (sinking fund)	1977	16,800,000
5¾% Debentures Series B (sinking fund)	1982	9,300,000
5¼% Debentures Series C (sinking fund) (U.S. \$18,700,000)	1982	20,216,000
Royalite Oil Company, Limited—		
4¾% to 5% Debentures and Bonds (sinking fund)	1966-1975	15,000,000
Shawinigan Chemicals Limited—		
4¾% Sinking Fund Debentures	1971	3,150,000
Superior Propane Limited—		
4% to 6¾% Debentures (sinking fund)	1966-1980	2,514,000
Other long term obligations of subsidiary companies	varying dates	738,000
		<u>82,144,000</u>
Less instalments due within one year included in current liabilities		<u>4,112,000</u>
		<u><u>\$ 78,032,000</u></u>

8. Capital stock

Common shares without nominal or par value:

Authorized — 34,000,000 shares	
Issued — 21,828,643 shares	<u>\$249,398,000</u>

(a) Restricted common shares—

On February 12, 1965 (the date of the auditors' report on the 1964 financial statements), the 9,000,000 authorized restricted common shares, of which 8,335,648 were then outstanding, ceased to be subject to restrictions as to dividends and thereafter ranked equally with each common share. The restricted common shares were converted into common shares of the Company on March 8, 1965.

(b) Authorized capital stock—

In May 1965 supplementary letters patent were obtained cancelling the 9,000,000 authorized restricted common shares and creating 9,000,000 additional common shares, increasing authorized capital stock of the Company to 34,000,000 common shares without nominal or par value.

(c) Stock option plan—

The Company's Incentive Stock Option Plan provides for the granting of options to full-time officers and other employees to purchase common shares of the Company at the market price on the day on which the options are granted. Under the Plan, options become exercisable after one year's continuous employment immediately following the date the options are granted and are for a period of ten years. During 1965 options on 6,750 shares were exercised for a cash consideration of \$198,000, options on 9,400 shares expired and options on 10,000 shares were granted. Details of common shares under option at December 31, 1965 were as follows:

Year option granted	Normal expiry date	Option price per share	Number of shares
1956	January 26, 1966	\$35.375	18,975
1957	August 13, 1967	50.625	22,900
1958	January 8, 1968	36.187	23,000
1959	January 20, 1969	42.562	31,600
1960	January 4, 1970	33.812	36,400
1961	February 22, 1971	33.937	29,700
1962	September 20, 1972	29.812	31,350
1965	April 22, 1975	34.625	10,000
			<u>203,925</u>

Shares under option at December 31, 1965 included 66,200 shares under option to officers of the Company.

9. Pension plans

The companies have funded pension plans under which employee contributions range from 4% to 5% of their salaries. These contributions together with those made by the companies are deposited with insurance companies and/or trustees according to the terms of the plans. Pensions at retirement are related to remuneration and years of service.

The unfunded past service pension costs at December 31, 1965 were \$2,866,000 and these will be funded in varying amounts over the next eight years.

Commitments and contingent liabilities

The companies have long term (three years and over) leases for real property and charters for tankers with approximate rentals payable in 1966 of \$16,451,000. Rental income from properties sub-leased to others is estimated at \$3,970,000 for 1966.

Under certain of these leases the Company has the option to purchase the leased assets and is obligated to make advances from time to time which will be applied against the purchase price if the option is exercised. It is estimated that such advances will aggregate approximately \$24,226,000 over the terms of the lease agreements (which expire at various dates to 1982) and will aggregate approximately \$4,137,000 during the next five years, of which \$791,000 will be payable in 1966.

The companies are contingently liable for guarantees of bonds of a pipe line company and of mortgages payable by owners of service stations and others, aggregating \$23,312,000. The management of the Company is of the opinion no losses of any consequence will result from these guarantees.

The companies have commitments in the ordinary course of business for the acquisition or construction of fixed assets and for the purchase of materials, supplies, investments and services which are not significant in relation to their net assets.

11. Directors' remuneration

Remuneration paid to the Company's directors, including directors holding salaried employment, totalled \$271,000 in 1965.

12. Form of statements

The form of the accompanying consolidated financial statements has been revised where necessary to meet the requirements of the Canada Corporations Act 1965.

Clarkson, Gordon & Co.
Chartered Accountants
15 Wellington Street West, Toronto 1, Canada

Auditors' Report

To the Shareholders of The British American Oil Company Limited:

We have examined the consolidated balance sheet of The British American Oil Company Limited and subsidiary companies as at December 31, 1965 and the statements of consolidated earnings for the year ended on that date. Our examination was made in accordance with generally accepted auditing standards and accordingly included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We did not examine the financial statements of certain of the subsidiary companies, which statements were examined by other independent public accountants whose reports thereon have been furnished to us.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings present fairly the financial position of the companies as at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants

Toronto, Canada, February 11, 1966.

Five Year Operations Summary

		1965	1964	1963	1962	1961
Net natural gas produced and sold <i>(millions of cubic feet)</i>						
	Total	127,430	119,475	114,110	113,361	87,386
	Per day	349	326	313	311	239
Net crude and natural gas liquids <i>produced (thousands of barrels)</i>						
	Total	31,796	31,211	29,930	29,408	25,732
	Per day	87	85	82	81	70
Crude oil processed by B-A and for B-A's <i>account (thousands of barrels)</i>						
	Total	57,145	55,899	54,688	51,894	46,395
	Per day	157	153	150	142	127
Refined products sold <i>(thousands of barrels)</i>						
	Total	62,252	59,245	54,568	52,430	45,349
	Per day	171	162	150	144	124
Petrochemical sales <i>(thousands of pounds)</i>						
	Total	931,991	1,012,248	630,294	417,302	293,890
	Per day	2,554	2,766	1,727	1,143	805
Net wells capable of producing at <i>year-end</i>		2,216	2,272	2,236	2,177	1,892
Net wells drilled		170	180	195	217	217
Net acreage under lease, reservation <i>and option (thousands of acres)</i>		16,753	14,192	12,839	13,193	12,813

Notes

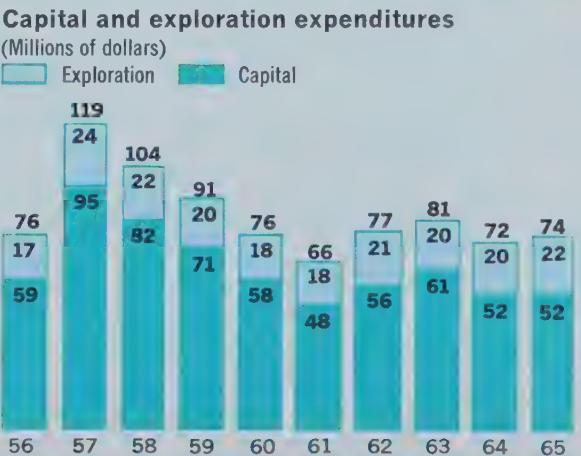
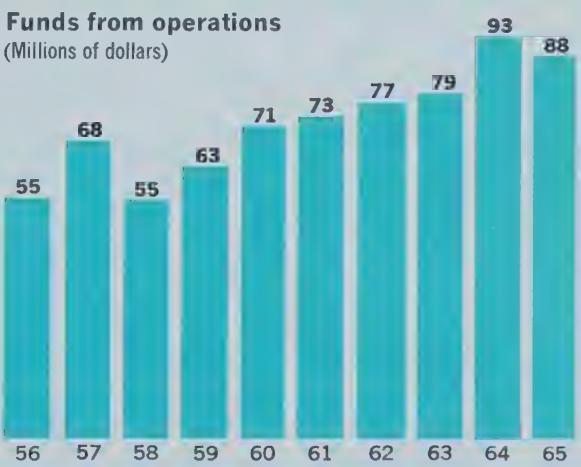
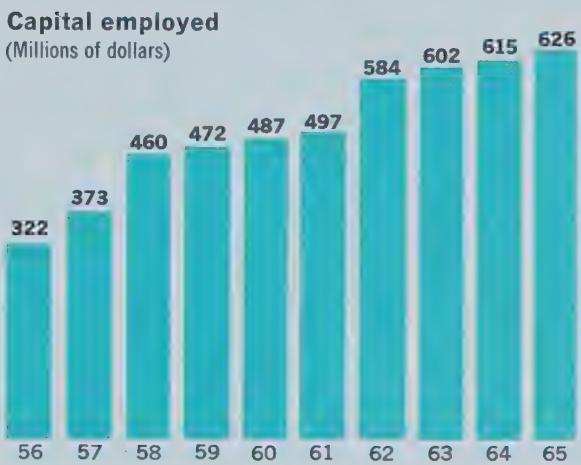
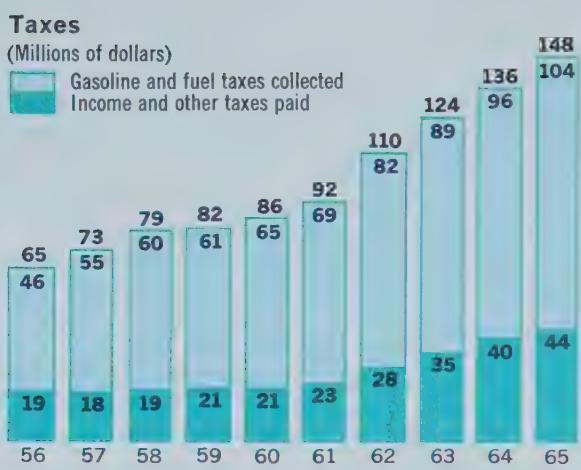
1963-65 petrochemical sales reflect the acquisition of Shawinigan Chemicals Limited.
1962-65 figures reflect the acquisition of Royalite Oil Company, Limited, Superior Propane
Limited and Anglo American Exploration Ltd.

Ten Year Financial Summary

Totals, except for unit statistics, expressed in millions of dollars

	1965	1964	1963	1962	1961
Earnings					
Gross operating revenues, dividends, special items, etc.	\$639.5	\$606.6	\$554.8	\$485.1	\$410.3
Deduct: Expenses, excluding depreciation, depletion, amortization and minority interest . . .	403.2	377.5	352.7	298.5	245.4
Taxes—Gasoline and other products.	103.8	95.7	88.3	81.7	69.8
—Income and general	44.5	40.1	35.2	28.4	22.5
Net funds from operations	88.0	93.3	78.6	76.5	72.6
Per common share	\$ 4.03	\$ 4.28	\$ 3.60	\$ 3.51	\$ 3.54
Deduct:					
Depreciation, depletion and amortization .	44.9	46.5	41.9	38.7	37.5
Disposals of capital assets—book value . .	3.0	4.9	2.2	2.6	2.4
Special items	1.1	4.1	—	—	.4
Minority share of earnings and special items.	1.8	1.1	.3	.6	.1
Net earnings for the year before special items . . .	\$ 37.2	\$ 36.7	\$ 34.2	\$ 34.6	\$ 32.2
Per common share	\$ 1.71	\$ 1.68	\$ 1.57	\$ 1.59	\$ 1.57
Dividends to shareholders	\$ 21.8	\$ 21.8	\$ 13.5	\$ 12.5	\$ 12.1
Rate per share	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Balance Sheet					
Current assets	\$246.2	\$216.3	\$207.0	\$182.3	\$143.1
Deduct: Current liabilities	145.0	118.1	112.7	83.2	65.3
Working capital	101.2	98.2	94.3	99.1	77.8
Properties, plants and equipment—net.	504.2	497.4	491.1	437.1	379.0
Investments, long term receivables and other assets	48.1	44.1	42.4	56.2	40.9
	653.5	639.7	627.8	592.4	497.7
Deduct: Minority interests in subsidiaries	27.9	25.1	25.8	8.2	1.0
Capital employed	625.6	614.6	602.0	584.2	496.7
Deduct: Long term debt	78.0	83.7	89.7	91.1	40.0
Shareholders' equity	\$547.6	\$530.9	\$512.3	\$493.1	\$456.7
Per common share	\$ 25.09	\$ 24.33	\$ 23.48	\$ 22.60	\$ 22.31
Capital and Exploration Expenditures					
Capital expenditures	\$ 52.1	\$ 51.4	\$ 60.7	\$ 55.5	\$ 47.9
Exploration and dry hole costs charged to expense.	22.0	20.2	20.5	21.4	17.7
Total	\$ 74.1	\$ 71.6	\$ 81.2	\$ 76.9	\$ 65.6
Employees—number at year-end	11,142	10,554	10,364	8,201	7,210
Shareholders—number at year-end	30,152	31,657	33,680	37,625	38,235
Shares outstanding—number at year-end (thousands)	21,829	21,822	21,818	21,818	20,475

1960	1959	1958	1957	1956
\$400.5	\$391.8	\$380.2	\$365.2	\$324.8
243.9	246.9	246.3	224.3	205.6
64.3	60.9	59.5	55.1	45.7
21.4	21.1	19.2	17.9	18.9
70.9	62.9	55.2	67.9	54.6
\$ 3.48	\$ 3.08	\$ 2.71	\$ 3.69	\$ 2.97
35.7	34.4	31.8	32.7	25.7
4.3	2.8	2.8	2.9	3.7
2.0	—	—	—	—
.1	.1	.1	.1	.1
\$ 28.8	\$ 25.6	\$ 20.5	\$ 32.2	\$ 25.1
\$ 1.41	\$ 1.25	\$ 1.00	\$ 1.74	\$ 1.36
\$ 12.1	\$ 12.1	\$ 10.6	\$ 10.1	\$ 9.4
\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
\$144.7	\$144.2	\$170.2	\$135.9	\$118.1
51.8	50.1	50.6	53.2	56.3
92.9	94.1	119.6	82.7	61.8
371.1	353.5	319.8	273.0	242.9
24.1	25.2	21.7	17.6	18.2
488.1	472.8	461.1	373.3	322.9
1.0	.9	.8	.7	.7
487.1	471.9	460.3	372.6	322.2
51.3	54.7	56.8	58.6	30.7
\$435.8	\$417.2	\$403.5	\$314.0	\$291.5
\$ 21.30	\$ 20.39	\$ 19.73	\$ 17.02	\$ 15.82
\$ 57.8	\$ 71.0	\$ 81.5	\$ 94.9	\$ 59.4
18.4	20.1	22.4	24.0	17.0
\$ 76.2	\$ 91.1	\$103.9	\$118.9	\$ 76.4
7,305	7,450	7,660	8,064	7,397
38,308	34,967	34,975	31,206	31,587
20,459	20,459	20,455	18,448	18,432





Financial Review

A comparative summary of earnings before and after income taxes and special items is set out in Table I. Pre-tax earnings at \$50.2 million were up \$3.9 million or nearly nine per cent, and reflected increased operating volumes in all phases of the Company's operations. At this level, earnings per share amounted to \$2.30 in 1965, compared with \$2.12 in 1964, an increase of 18¢.

Income taxes at \$13 million or 59¢ per share were relatively higher in 1965, primarily as a result of lower deductions for intangible drilling and lease acquisition costs. In addition, 1965 income taxes were relatively higher because of the reduced effect on these taxes of claiming maximum capital cost allowance, rather than the depreciation charged in the accounts. Net earnings before special items amounted to \$37.2 million or \$1.71 per share, compared with \$36.7 million or \$1.68 per share in 1964. Special items, which were of a capital or non-recurring nature, declined from a net of \$4.1 million in 1964 to \$1.1 million in 1965. These items arose mainly from the sale or disposal of investments and capital assets. In 1964 the Company sold a part of its equity investment in Trans-Canada Pipe Lines Limited, and disposed of certain crude oil gathering systems in the United States. In 1965 the credits arose from the sale of certain investments by Shawinigan Chemicals Limited, and from the final settlement received on expropriation of a part of the Company's terminal facilities in Toronto. On a per share basis, special items amounted to 19¢ in 1964 and 5¢ in 1965.

Because of the foregoing, total net earnings declined from \$40.8 million in 1964 to \$38.3 million in 1965, and from \$1.87 per share to \$1.76 per share.

During the latter part of the year, the Company acquired all the outstanding common shares of Western Tire and Auto Supply Limited, and of Gunning Oil Limited. Western Tire operates a chain of automotive and home accessory stores in Eastern Canada, in addition to a number of large automotive centres in Ontario and Quebec. Gunning markets petroleum products mainly in the Niagara Peninsula. The assets and liabilities of these companies are reflected in the consolidated balance sheet.

Total current assets at the end of 1965 amounted to \$246 million, an increase of \$30 million over 1964. Included in these assets was \$30.9 million in short term investments, which will be utilized in 1966 in financing the Company's capital expenditure programs planned for that year. While there was a substantial increase in current assets during the year, current liabilities also advanced, but to a lesser extent. The largest increase in current liabilities was in amounts payable to affiliated companies, mainly to Gulf Oil Corporation and its affiliated companies for crude oil and other purchases. The increase of \$21 million in this category represents, in part, an extended credit arrangement with Gulf in respect to the payment for certain crude oils purchased for processing at B-A's Montreal East refinery.

At the year-end, working capital amounted to \$101.2 million and, as shown in Table II, increased \$3 million during the year. Capital expenditures aggregated \$52.1 million, slightly higher than in the previous year. A comparative breakdown of expenditures for properties, plants and equipment by major segments of the Company's operations is provided in Table III. Lower outlays in 1965 for production assets were more than offset by increased expenditures for refining, petrochemical, and marketing facilities.

Total assets of the Company and its affiliates at the year-end amounted to \$798.6 million on a consolidated basis. The shareholders' equity interest in these total

Table I Comparative summary of earnings

	Millions of Dollars		Per Share	
	1965	1964	1965	1964
Earnings before income taxes and special items	\$50.2	\$46.3	\$2.30	\$2.12
Income taxes applicable to the above	13.0	9.6	.59	.44
Net earnings before special items	\$37.2	\$36.7	\$1.71	\$1.68
Special items less applicable income taxes (net)	1.1	4.1	.05	.19
Total net earnings	\$38.3	\$40.8	\$1.76	\$1.87

Table III Expenditures on properties, plants and equipment

	1965		1964	
	Millions	Per Cent	Millions	Per Cent
Production	\$19.7	37.8	\$27.6	53.7
Transportation	.1	.2	.2	.4
Refining	9.5	18.2	6.7	13.0
Petrochemicals	6.2	11.9	.9	1.8
Marketing	15.2	29.2	14.0	27.2
Other	1.4	2.7	2.0	3.9
	\$52.1	100.0	\$51.4	100.0

Table II Source and application of funds

Millions of dollars	1965	1964
Source of funds		
Earnings for the year and special items	\$38.3	\$40.8
Add:		
Depreciation, depletion and amortization	44.9	46.5
Disposal of capital assets—book value	3.0	4.9
Minority share of earnings and special items	1.8	1.1
Funds from operations	\$88.0	\$93.3
Issue of shares	.2	.1
Working capital of acquired subsidiaries	.8	.2
Total funds made available	\$89.0	\$93.6
Application of funds		
Capital expenditures	\$52.1	\$51.4
Dividends—to B-A shareholders	21.8	21.8
—to minority shareholders	.2	.3
Reduction in long term debt	5.7	6.3
Purchase of shares of subsidiaries	3.5	7.9
Investments, advances, etc.	2.7	1.0
Redemption of preferred shares of a subsidiary	—	1.0
Total funds applied	\$86.0	\$89.7
Working capital—increase	\$ 3.0	\$ 3.9

Table IV Analysis of investment in associated and other companies

Millions of dollars	December 31	
	1965	1964
Crude oil, gas and product pipe lines	\$ 9.5	\$ 9.5
Gas plants	.6	.6
Chemical manufacturers	.8	1.4
Other related businesses	1.5	2.0
	\$12.4	\$13.5

Distribution of before-tax earnings including special items

(Millions of dollars)

- Income taxes
- Dividends
- Retained in business



Funds from operations

(Dollars per share)

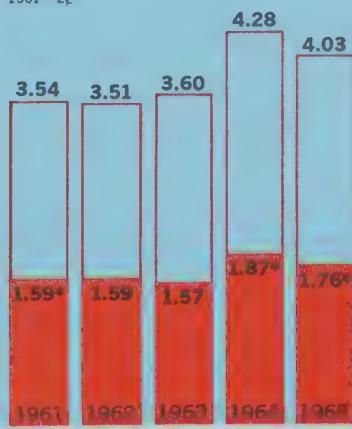
- Net earnings per share

*Includes special items equivalent to the following:

1965—5¢

1964—19¢

1961—2¢



assets, after payment of dividends of \$21.8 million during the year, increased by \$16.7 million to \$547.6 million or \$25.09 per share, compared with \$24.33 per share in 1964, a gain of 76¢ per share.

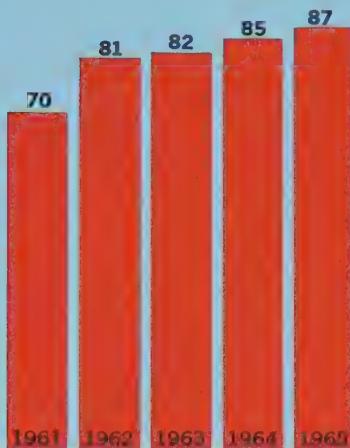
Statements showing operating statistics for the past five years and earnings and balance sheet statistics for the past ten years appear on pages 13 and 14.



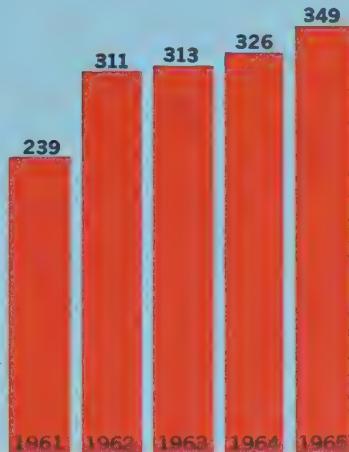
Exploration: B-A's exploratory operations in Canada ranged from the Mackenzie River Delta of the Northwest Territories (top and lower left) to offshore British Columbia in the Strait of Georgia (bottom right).



Net crude and natural gas liquids produced
(Thousands of barrels per day)



Net natural gas produced and sold
(Millions of cubic feet per day)



EXPLORATION AND PRODUCTION

Net production of crude oil and natural gas liquids by British American and its affiliates in Canada and the United States during 1965 amounted to 87,100 barrels a day, compared with 85,300 barrels a day the previous year. Net natural gas produced and sold in both countries also increased, rising to 349 million cubic feet daily, compared with 326 million cubic feet daily in 1964.

Canada

Net production of crude oil and natural gas liquids in Canada averaged 64,100 barrels per day in 1965, up from 61,600 barrels per day the previous year. Net natural gas produced and sold averaged 270 million cubic feet per day, compared with 254 million cubic feet per day in 1964. The increase in natural gas production is attributed to seven new plants placed in operation in Alberta during 1965. Sales volumes from these projects more than offset declining gas deliverability from older areas, particularly the Pincher Creek field in Alberta and the Pouce Coupé area of British Columbia.

B-A's exploratory operations continued at a high level in 1965, with land inventory, wildcat drilling and geophysical programs all showing significant increases. The Company was active in the British Columbia offshore scene, in the Mackenzie River Delta area of the Northwest Territories, and further diversified its operations by entering the promising potash play in central Saskatchewan.

Wildcat drilling by B-A and its partners resulted in the completion of 80 gross wells, an increase of eleven wells over 1964. Completions resulted in four oil and 13 gas discoveries in Alberta, two gas discoveries in British Columbia, and two oil discoveries in Saskatchewan.

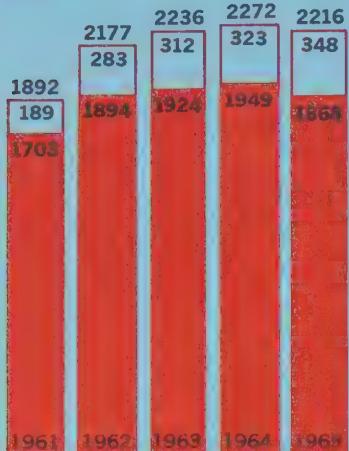
Although no major oil or gas fields were discovered, several smaller finds were significant. At Nig Creek in northeastern British Columbia, a wildcat opened up a new area for gas production; in north-central Alberta, two partial-interest wildcats were successful at Nipisi, and an aggressive wildcat program at Marten Hills—Calling Lake added to B-A's gas reserves in this area. In southern Alberta, good gas strikes were recorded at Hesketh, Lake McGregor, Little Bow and Turin.

B-A as operator, with partners, drilled a deep exploratory test in the unexplored Mackenzie River Delta. This well, named Reindeer, did not find commercial production, although it is not unusual that a first venture fails in a virgin area. It is significant that Reindeer, the furthest north test in continental Canada, encountered two gas shows and an appropriate section of sedimentary rock, all of which will encourage continued exploration.

The Rainbow Lake area in northwestern Alberta, where significant oil and gas discoveries have been made, attracted much industry attention during the year. B-A

* Net oil and gas wells capable of producing at year-end

Gas wells
Oil wells



*Canada and United States

*Well completion data

	Exploratory and wildcat				
	1965	1964	1963	1962	1961
Gross Wells	7	7	9	11	11
Successful—oil	16	16	12	12	9
—gas	84	75	85	88	100
Dry Holes					
Total	107	98	106	111	120
Net Wells					
Successful—oil	5	5	7	7	9
—gas	15	9	8	7	4
Dry Holes	61	56	57	66	75
Total	81	70	72	80	88
Development					
Gross Wells	1965	1964	1963	1962	1961
Successful—oil	62	124	142	139	148
—gas	49	33	43	59	48
Dry Holes	40	31	44	58	34
Total	151	188	229	256	230
Net Wells					
Successful—oil	35	76	89	77	88
—gas	22	12	7	22	19
Dry Holes	32	22	27	38	22
Total	89	110	123	137	129

holds more than one million acres north of Rainbow, and this excellent land interest in the general area has been improved further with the acquisition of a drilling reservation northwest, and a farm-in of lands east and southeast of Rainbow. Geophysical and wildcat programs are now in progress.

At the year-end, B-A's net acreage stood at 16 million acres, an increase of approximately 2.8 million acres over the 1964 figure.

In its development program, B-A participated in drilling 104 gross wells, resulting in 20 oil and 31 gas wells in Alberta, seven oil and five gas wells in British Columbia, and 16 oil wells in Saskatchewan. Principal areas of activity were Tawatinaw-Calling Lake, Swan Hills, and Nipisi in central Alberta, Willmar in southeastern Saskatchewan, and Nig Creek in northeastern British Columbia.

A major expansion program at B-A's wholly-owned Nevis, Alberta, gas plant was begun in the latter part of 1965. When completed this summer, the plant's capacity will be increased from 45 to 69 million cubic feet of natural gas per day.

United States

Production of The British-American Oil Producing Company averaged 23,000 barrels of crude oil and natural gas liquids daily during 1965, a 700 barrel-per-day decrease from the previous year. During the same period, the production and sale of natural gas rose from 72 to nearly 79 million cubic feet per day.

The decrease in crude oil and natural gas liquids production was the result of natural decline in old fields not susceptible to secondary recovery. Production from fields under secondary recovery was about the same as in 1964. The increase in natural gas reflected larger markets and the sale of new gas, primarily from the Crawar and Sheridan fields in Texas, the Shuteston and Garden City fields in Louisiana, and the Osudo field in New Mexico.

British-American participated or had an interest in the drilling of 27 gross exploratory wells, two of which are indicated to be commercial oil and gas discoveries. Of 47 gross development wells drilled in Louisiana, Nebraska, Colorado, Oklahoma, Texas, New Mexico, and Wyoming, 32 were oil or gas producers.

In continuing efforts to increase economically the ultimate recoveries of oil and gas and to obtain the highest possible producing rates, the Company joined in four new field-wide units during 1965 to permit the use of secondary recovery operations by the injection of water or gas into portions of producing reservoirs. A predominant interest in one field was purchased for this purpose and negotiations are taking place for major interests in another field. British-American now has ownership in 51 secondary recovery projects, 17 of which are B-A-operated. Engineering analysis or negotiations for similar projects are proceeding in order to acquire an interest in an additional 12 fields.



Drilling, Production: Top: Roughnecks work on one of 184 wells completed by B-A in Western Canada during the year. Top right: The Company is conducting an active exploratory program in the promising Rainbow area of Alberta. Bottom: Sulphur stock pile at B-A's Nevis, Alberta, gas plant. Major expansion will increase plant's processing capacity from 45 to 69 million cubic feet of natural gas per day.





Transportation: Top: BA Peerless, which carries product to East Coast and Great Lakes ports during the summer, transits the Welland Canal. Bottom: Large-capacity truck trailer units, added to B-A's fleet in 1965, contributed to a reduction in the unit cost of moving product.



The reduction and consolidation of B-A's exploration and producing offices, effected in late 1964, resulted in more efficient operations and a considerable reduction in expenses.

At year-end, non-producing acreage totalled 655,000 in 17 states, compared with 916,000 acres in 1964.

SUPPLY AND TRANSPORTATION

Canadian crude oil prices again remained generally steady throughout 1965.

Selective purchasing of crude oil to provide the necessary types for the most efficient operation of B-A refineries, and of refined products to balance supply, continued to play an important part in the Company's progress in 1965.

Although the total cost of transporting crude oil and products was higher as a result of record volumes and abnormal supply conditions, the unit cost was reduced further. The use of jumbo-sized tank car equipment was extended to take advantage of favorable freight rates applied to this type of transportation. The larger equipment resulted in substantial freight savings in both Eastern and Western Canada. Continuing studies will ensure the extension of similar low-cost programs into other areas.

MANUFACTURING

Crude oil and condensate processed by B-A refineries and for the Company's account totalled 57 million barrels, up more than one million barrels over 1964.

Canadian crude oil and condensate accounted for 71.4 per cent of total throughput in 1965, slightly lower than in 1964. Apart from a small volume of specialty asphalt crude at Clarkson, all refineries, excluding Montreal East, operated on Canadian crude. Montreal, with a throughput of 16 million barrels, processed Middle East, African, and South American crude.

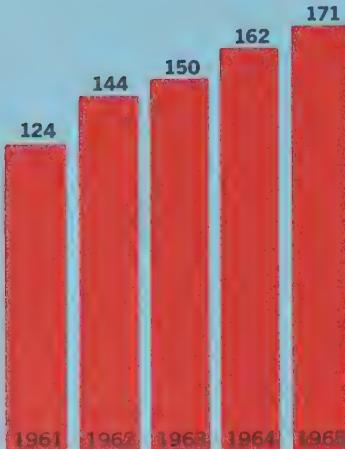
The new 55,000 barrel-per-day combination crude topping and vacuum unit at Montreal, which commenced operating in March, 1966, increased the refinery's crude processing capacity from 45,000 to 67,500 barrels per day. The Company's total crude processing capacity rose from 169,000 to 193,000 barrels per day.

Rising demands continue to require capital funds for expansion of petrochemical facilities at Montreal. At year-end, work was underway on the installation of additional hydrogen-producing equipment, while other expenditures involved increased storage and treating facilities.

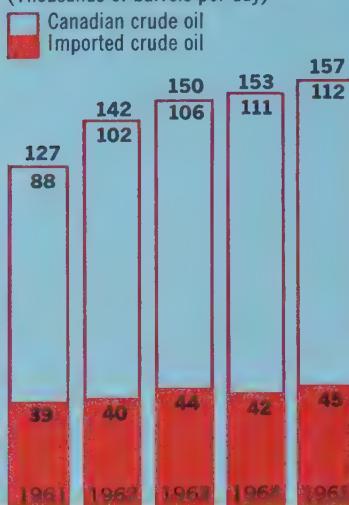
Refinery crude processing capacity	Barrels Per Day
Montreal East, Quebec	67,500*
Clarkson, Ontario	55,400
Brandon, Manitoba	3,600
Moose Jaw, Saskatchewan	13,500
Saskatoon, Saskatchewan	7,500
Calgary, Alberta	9,000
Edmonton, Alberta	12,600
Kamloops, British Columbia	5,900
Port Moody, British Columbia	18,000
Total	193,000

*Capacity on completion of new crude unit in March, 1966.

Refined products sold
(Thousands of barrels per day)



Crude oil processed by B-A and for B-A's account
(Thousands of barrels per day)



PETROCHEMICALS

Total sales of petrochemicals by British American and Shawinigan Chemicals, excluding sulphur, amounted to 353 million pounds in 1965, compared with 310 million pounds in 1964, a gain of 14 per cent. The operations of Shawinigan Chemicals are reported on page 28.

Sulphur sales dropped from 313,000 long tons in 1964 to 259,000 long tons in 1965 as inventories, built up in prior years, became depleted. The decline in sales volumes, however, was largely offset by price increases stemming from a worldwide sulphur shortage.

As of January 1, 1966, the marketing of all petrochemicals, except sulphur, was taken over by Shawinigan Chemicals. These products include cyclohexane, cumene, benzene and toluene. B-A's manufacturing operations will be integrated with those of Shawinigan, and will continue to supply a large proportion of Shawinigan's raw materials.

MARKETING

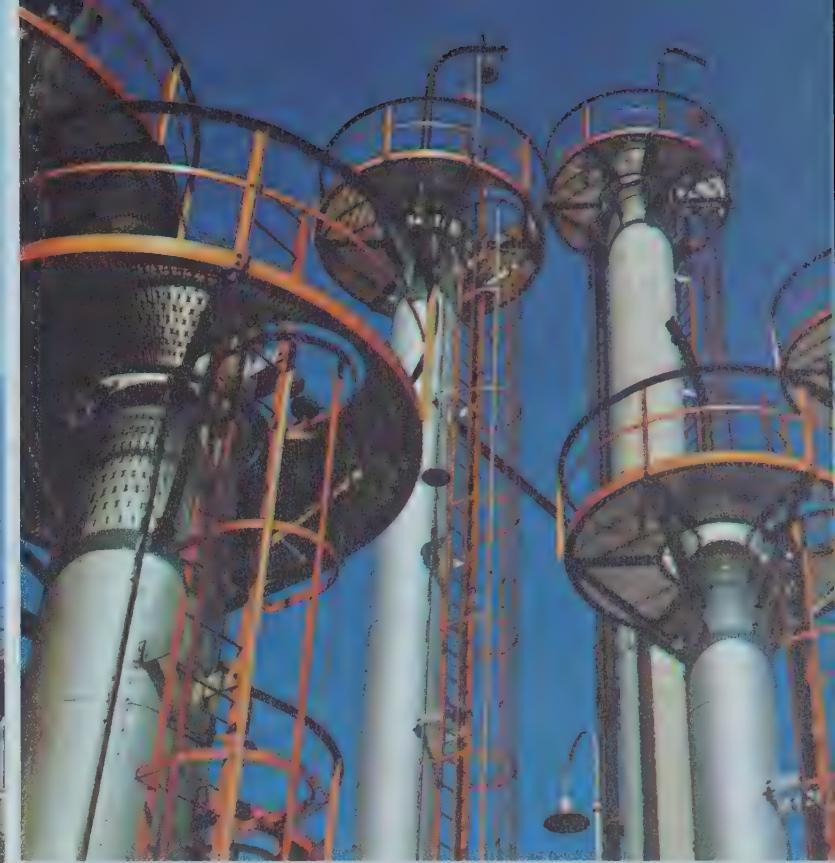
Total sales of all petroleum products increased by five per cent in volume in 1965, with major gains in retail gasoline and heavy fuels.

During 1965 a Royal Commission, appointed to enquire into the British Columbia gasoline price structure, completed its hearings, although it has not yet submitted a report. Gasoline today is one of the biggest bargains the Canadian consumer enjoys. While quality has consistently improved over the years, the cost of gasoline to the motorist has risen less than almost any other consumer product—and most price advances have been due to higher gasoline taxes. Recent increases in gasoline tax in some provinces again emphasize the extent to which prices reflect consumer taxes on these commodities. To illustrate, it is noted that B-A's gross sales and other operating revenues totalled \$632 million in 1965, of which \$104 million represented direct gasoline and fuel oil taxes levied against these sales by provincial governments.

In recent years, the trend in retail gasoline facilities has been toward higher volume outlets offering a wider range of products and services. These trends are being studied by the Marketing department's planning groups.

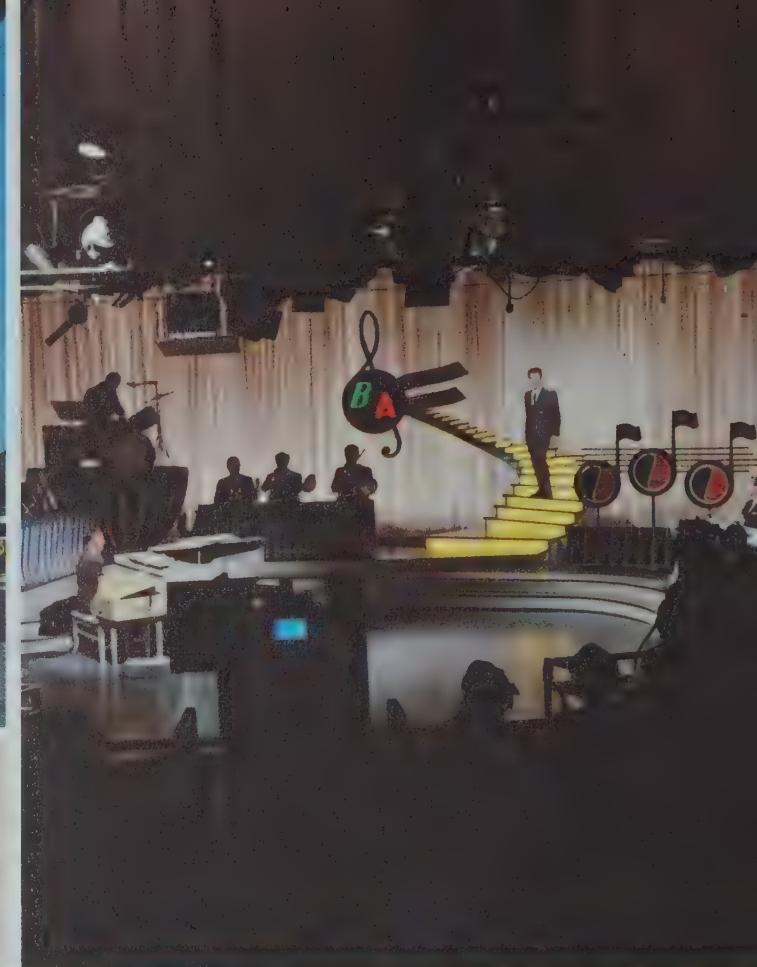
To broaden the range of services offered to customers, an agreement was made with Holiday Inns during 1965 whereby holders of B-A credit cards and books can sign for accommodation at any Holiday Inn in Canada or the U.S. This service is attracting many new customers.

Last summer, the Company introduced a B-A Sentinel line of oil furnaces for sale through authorized heating contractors. This high-efficiency equipment is a major factor in a program to provide complete heating comfort for Solar Heat customers.



Manufacturing: Top: Clarkson was one of nine B-A refineries operating at near-capacity during 1965. Top right: Stabilizers at Saskatoon refinery. Operation of Saskatoon, Kamloops, and Brandon refineries was taken over by B-A on January 1, 1965. Bottom: Completion of the new 55,000 barrel-per-day crude topping and vacuum unit at Montreal East refinery gave British American the second highest refinery capacity in that area.





Marketing: Top: Retail outlets were opened in selected locations, such as this service station-restaurant on the busy Macdonald-Cartier Free-way, near Dutton, Ontario. Top right: The popular, nationally-televised *Musical Showcase* program brought thousands of motorists into B-A's stations across Canada. Bottom: As an added convenience to customers, Holiday Inns now honor B-A credit cards in Canada and the U.S.



Sales of tires, batteries and accessories continued to increase. During the year, the Sentinel Supreme, a premium quality tire, was added to B-A's line.

Recognizing the importance of improving the productivity of marketing field operations, B-A is developing and implementing new systems designed to take full advantage of modern facilities for processing and transmitting information. Late in 1964, a Marketing Area Control Centre was established in Metropolitan Toronto; orders received at a central point are processed by computer, and delivery invoices are produced at remote branch offices by teletype. A significant expansion of this concept of an integrated system to combine processing of invoices with completed sales and receivable statistics, the planning and control of delivery operations, and the maintenance of field inventories, is under development.

The *B-A Musical Showcase* and *Le Grand Prix Musical* television programs continued to meet with marked success in bringing new business to B-A stations.

EMPLOYEE AND PUBLIC RELATIONS

Encouraging results were achieved in accident prevention. Disabling injuries were fewer than in the previous year, and five operating units earned the President's Award for 365 days without a lost-time injury. In the field of safe driving, 475 employees qualified for awards and, in open competition, B-A drivers won a provincial championship, also a second and third place in their respective classes.

B-A continued to encourage employees in improving their skills. During the year, 250 courses were completed, and 140 employees were sent to study a wide range of subjects of direct interest to B-A's operations.

Long service with the Company was recognized with the award of 970 service pins—405 employees completing ten years, 168 marking from 25 to 40 years, and one employee attaining 45 years of service.

Forty-eight employees retired during the year. The Company's Retirement Income Plan has now been coordinated with the Canada and Quebec Pension Plans. Other employee programs are under constant appraisal.

At year-end, B-A had a total of 11,142 employees, including those of affiliated companies.

British American's public relations program—to help give the Company an effective corporate identity—covered three main areas of activity: internal and external communications, and corporate donations. In its internal aspects, the program included periodicals and bulletins published for employees, dealers, and shareholders, and externally, the issuance of releases, articles, photographs, booklets for schools, films on loan from Company libraries, and informational material of various types to meet special requests.

Highlights of the year for the aid-to-education program were the first B-A university entrance scholarships to children of employees of the Company and its affiliates, and B-A graduate fellowships competitively awarded to students in several disciplines. The plan is administered by the Association of Universities and Colleges of Canada.



Principal Affiliated Companies in Canada

ROYALITE OIL COMPANY, LIMITED

Under the agreements referred to in last year's Annual Report, Royalite Oil Company, Limited assumed responsibility for the operation of marketing facilities of Purity 99 Oil Ltd. and Anglo-Canadian Oils Limited. At the same time, British American contracted to manage Royalite's oil and gas properties, pipe line facilities, and gas plants, and took over operation of the Royalite and Anglo-Canadian refineries at Saskatoon, Kamloops, and Brandon. As a result of these changes, economies were achieved in production, manufacturing, and distribution functions.

As a greatly-expanded marketing organization, Royalite is now playing a major role in petroleum marketing throughout Western Canada. Its newly-adopted emblem identifies 1,300 service stations and 500 bulk plants serving urban and farm markets from the Lakehead to the Pacific coast.

Earnings before taxes were improved in 1965, but income taxes increased due to the fact that they were reduced in 1964 by the carry-forward of losses incurred in prior years and, as a result, after-tax earnings were lower than a year ago.

SHAWINIGAN CHEMICALS LIMITED

Shawinigan earnings for 1965 again improved over the previous year. A larger volume of products was manufactured and sold, with significant gains in ethylene, phenol, acetone, vinyl acetate, hexylene glycol and sulphuric acid. Some price increases occurred because of world-wide demand for chemical products.

To keep pace with the high rate of expansion and increasing competitive force in the Canadian chemical industry, Shawinigan during 1965 embarked on a program to improve its position in more profitable and expanding areas, at the same time dropping less attractive lines. As a result, extensive capital expenditures were approved for the construction of a new vinyl monomer plant to make this product available for sale, and for the production of resin. Additional capacity was installed for the processing of vinyl resins to consumer products. Although sales of several vinyl products were less than had been anticipated because of the competitive market which developed for this material, sales of converted plastics, such as wall covering and plastic bristles, increased.

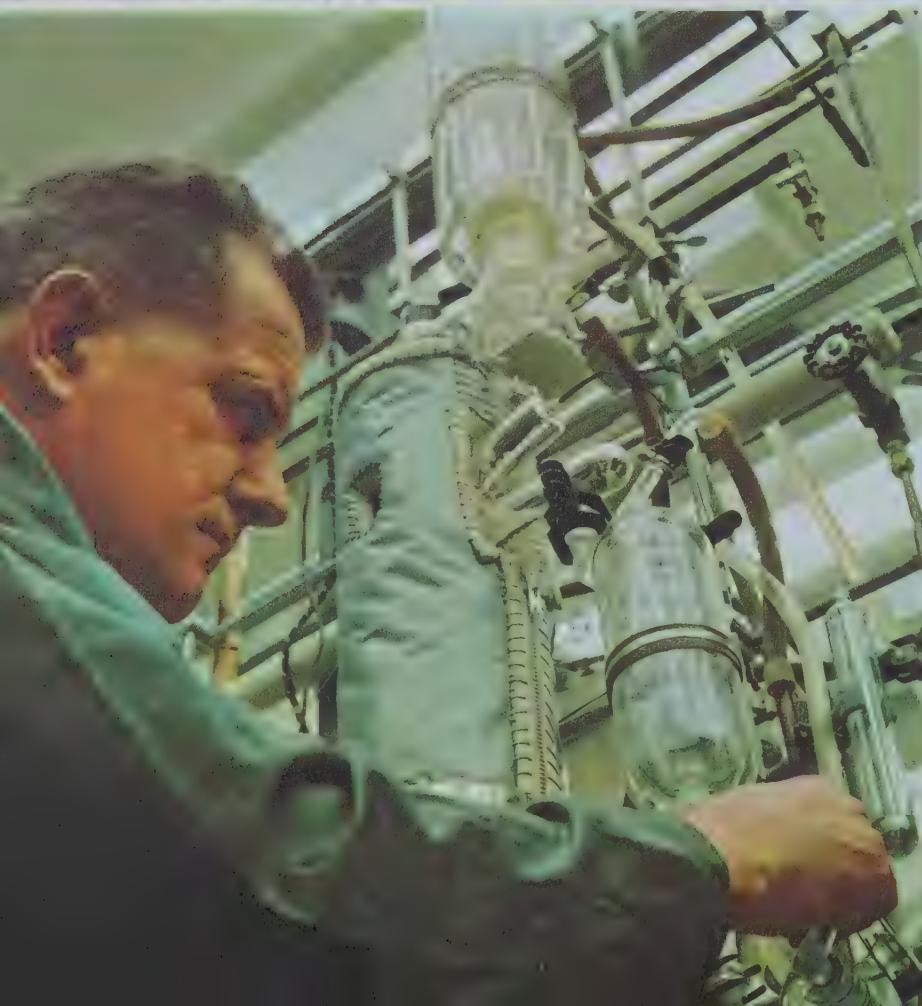
Shawinigan announced in 1965 that its ethylene plant at Varennes, Quebec, would be enlarged to supply Shawinigan's growing requirements for ethylene, and for the sale of this product to customers. These new facilities will strengthen Shawinigan's position as a major producer of ethylene, and will create an increased demand for raw materials supplied by B-A manufacturing plants in the Montreal area. The planned increase in production will also accelerate Shawinigan's change from largely coal-based to petroleum-based raw materials. This change began in the early 1950's with the construction of a phenol and acetone plant at Montreal East, and was further developed in 1963 with the addition of the present ethylene plant at Varennes.

Shawinigan's new research and development laboratory and technical service centre at Montreal, which is coordinated with B-A's research and development facilities at Sheridan Park, is scheduled for completion in the spring of 1966.



Affiliates: Top: The new Royalite sign identifies 1,300 service stations and 500 bulk plants in Western Canada, including those previously operated by Anglo-Canadian Oils Limited and Purity 99 Oil Ltd. Bottom left: Operator tests new equipment for the manufacture of vinyl at a Shawinigan plant. Bottom right: Staff at Shawinigan's Ste. Thérèse, Quebec, plant inspects bolt of patterned vinyl for tablecloth manufacture.





Top: Major rural customers of Superior Propane Limited include summer resorts and hunting lodges. Bottom: In first full year of operation, the British American Research and Development Centre's scientists at Sheridan Park carried out a wide range of projects in many diverse fields.



SUPERIOR PROPANE LIMITED

Sales of propane gas gained substantially during 1965. Anticipated results of the previous years' acquisitions were fully realized, and reduced operating costs were attained as a result of the increased efficiency made possible by the integration of these newly-acquired facilities.

While main uses of propane continued to be for domestic purposes, recently-developed markets included temporary heat for high-rise construction, controlled atmosphere for greenhouses, and grain drying. Sales of propane gas and propane gas-burning equipment were at record levels, with profits being commensurate with higher sales.

Increased volumes of propane, which will be made available from B-A's recently-expanded Montreal East refinery, will assist Superior in meeting the fast-growing demands for this product in Eastern Canada.

RESEARCH AND DEVELOPMENT

During the first full year of operation of the new British American Research and Development Centre, professional and technical personnel met corporate research objectives by fulfilling current technological needs of the Company, and developing science and technology for future growth.

Nearly 600 research projects, covering both short and long-range activities, were initiated. In addition to conducting applied and basic research studies of particular interest to an industrial research organization, the work of the Centre included the development and improvement of petroleum products; the development of new technology and analytical research techniques of interest to the petroleum and petrochemical fields in the Company; and the provision of technical support to B-A's affiliated companies.

Increased emphasis is being given to chemical research and special project studies, involving organic and inorganic research concerned with the up-grading of petroleum stocks, development of petrochemicals, and petroleum feedstocks.

Research is being carried on in many diverse fields, such as the Athabasca tar sands, heavy water, organic coolants, helium, sulphur, petrochemicals, and chemicals.





The British American Oil Company Limited

Directors

W. H. Browne, Toronto
F. W. Bruce, Montreal
D. L. Campbell, Toronto
J. R. Gordon, New York
Charles Hay, Toronto
R. A. Laidlaw, Toronto
Beverley Matthews, Q.C., Toronto
Gerard Plourde, Montreal
V. W. T. Scully, Hamilton
C. D. Shepard, Toronto

Directors Emeriti

L. J. Belnap, Montreal
C. L. Suhr, Oil City, Pennsylvania

Officers

Charles Hay, President
C. D. Shepard, Chairman of the Board
L. P. Blaser, Vice-President
D. L. Campbell, Vice-President
E. J. Gallagher, Vice-President
D. S. Lyall, Vice-President
J. W. Morgan, Vice-President
L. R. Woolsey, Vice-President
G. W. K. Macdonald, Q.C., Secretary
J. M. Turnbull, Treasurer and
Comptroller
J. C. Phillips, General Counsel

Head Office

British American Oil Building
800 Bay Street, Toronto, Ontario

Marketing Division Offices

Halifax, Nova Scotia; Montreal, Quebec;
Toronto, Ontario; Calgary, Alberta;
Vancouver, British Columbia

Data Centres

Montreal, Quebec; Toronto, Ontario;
Calgary, Alberta

Research and Development Centre
Sheridan Park, Ontario**Production and Pipe Line Offices**

Calgary, Alberta—Headquarters of:
Canadian Production
Britamoil Pipe Line Company Limited
B-A Saskatchewan Pipe Line Limited
Saskatoon Pipe Line Company, Limited

Gas Plants

Pincher Creek, Nevis, Gilby, Rimbey
and Turner Valley, Alberta

Refineries

Montreal East, Quebec; Clarkson,
Ontario; Brandon, Manitoba; Moose
Jaw and Saskatoon, Saskatchewan;
Calgary and Edmonton, Alberta; Kam-
loops and Port Moody, British Columbia

Registrar

Eastern & Chartered Trust Company, Toronto

Transfer Agents

Eastern & Chartered Trust Company—
Montreal, Toronto
National Trust Company Limited—
Winnipeg, Edmonton, Vancouver
and by its agent
Canadian Imperial Bank of Commerce—
Halifax, Saint John, N.B., Regina
Registrar and Transfer Company—New York

Principal Affiliates

THE BRITISH-AMERICAN OIL
PRODUCING COMPANY
and The Toronto Pipe Line Company
(100 per cent interest)
A crude oil and natural gas producing
company operating in the United States.
Head Office: Dallas, Texas
President: O. I. Torkelsen

ROYALITE OIL COMPANY, LIMITED
(97.6 per cent interest)

A marketer of petroleum products in
Western Canada, combining the oper-
ations of Purity 99 Oil Ltd. and Anglo-
Canadian Oils Limited.
Head Office: Calgary, Alberta
President: J. L. Valens

SHAWINIGAN CHEMICALS LIMITED
(66 2/3 per cent interest)
An industrial chemical organization
with plants at Shawinigan, St. Maurice,
Ste. Thérèse, Montreal East and
Varennes, Quebec. Products are
marketed on a world-wide basis.
Head Office: Montreal, Quebec
President: H. S. Sutherland

SUPERIOR PROPANE LIMITED
(100 per cent interest)
A distributor of propane in Central
and Eastern Canada.
Head Office: Toronto, Ontario
President: R. G. Samworth

Products and Services

The Company meets the needs of the motorist, the home owner, the farmer, the industrialist and the armed forces with a full line of quality petroleum products and specialized services. The main classifications are listed below.

Gasolines and Fuels

88 and 98 gasolines, Aviation gasolines, Aviation turbine fuels, Solar Heat, Diesel fuel oils, Tractor gasoline, Marine white gasoline, Kerosene, Stove oil, Bunker fuel oils, Petroleum coke, Natural gas

Oils

Motor oils, Aviation engine oils, Turbine oils, Automatic transmission fluid, Hydraulic oils, Cutting oils, Honing oils, Heat treatment oils, Process oils, Cylinder oils, General purpose oils, Dryer bearing oils, Black oils, Marine engine oils, Textile oils, Pneumatic tool oils, Gear oils, Non-drip oils, Outboard motor oil

Greases

Cup greases, Chassis lubricants, High temperature greases, Low temperature greases, Graphite greases, Extreme pressure greases, Ball and roller bearing greases, Multi-purpose greases, Wire rope lubricants, Gear shields, Track roll greases, Farm greases, Brick

greases, Concrete form greases, Tool-joint greases

Solvents

Rubber solvents, Paint solvents, Dry cleaning solvents, Lacquer thinners, Wax polish diluents, Floor cleaners

Asphalts

Road oils, Paving asphalts, Industrial asphalts, Oxidized asphalts, Roofing asphalts

Specialties

Propane, Butane, Slack waxes, Petroleum, Lighter fluid, Barbecue starter, Household oil

Petrochemicals

Benzene, Cumene, Cyclohexane, Sulphur, Toluene, and a wide range of industrial chemicals and plastics through Shawinigan Chemicals Limited, including Ethylene, Vinyl chloride, P.V.C. resins, Phenol, Acetone, Acetic anhydride, Formaldehyde

Tires, Batteries and Accessories

A complete line of B-A passenger and truck tires, B-A automotive batteries and accessories

Equipment and Appliances

Oil furnaces, and gas appliances through Superior Propane Limited

